THE WAR AND THE SUPPLY OF CAPITAL—DISCUSSION

HERMANN F. ARENS.—To what do you attribute the great increase in the production and producing powers which you have shown? Was it not brought forth by the great profits which business enterprises have been able to make because of extraordinarily high prices?

DAVID FRIDAY.—Undoubtedly. The high prices of products as compared with the prices of production goods and of labor is the explanation of this increase in productive output.

MR. ARENS.—Do you think that this rate of production could be maintained on a falling market?

MR. FRIDAY.—I wish it could, but I am certain it cannot unless some institutional arrangement can be effected by which entrepreneurs can be guaranteed against the risk of financial extinction through industrial loss. I feel that the fear of loss is the chief factor that keeps entrepreneurs from going ahead with confidence. Since demand depends upon production, there is no real necessity of a fall in production and consequent loss, but falling prices are expected by the public and entrepreneurs will be deterred by the risks of business from utilizing the productive capacities of the country to the fullest extent.

ELISHA M. FRIEDMAN.—Professor Friday's results are to be qualified on four grounds. He states that twelve billion dollars can be saved annually by the American people. In arriving at this result he adds investments, government bonds, corporate surplus, and reserves for war taxes. The elements of error are as follows:

1. *Duplication.*—Several items are duplicated. To add surplus and investments is to count the same dollar twice, once as an asset item, and once as part of the capital account. Corporate surpluses are usually invested and sometimes in Liberty Loan bonds.

2. *High prices.*—At present high price levels, inventories are unusually large. The increase on the asset side of the balance sheet is a source of the large corporate surpluses. They are not permanent. When prices fall, the surpluses will decrease and the "savings" based on inflated prices vanish.

3. *U. S. Government bonds.*—These do not represent the nation's savings exclusively. In large part, bonds were bought by individuals and corporations by borrowing at the banks, and may represent the savings of the following year. The banks themselves have been large subscribers. Proof that U. S. Government bonds do not entirely consist of savings of a year is afforded by: (a) the transfer of money from non-

government investments into Liberty bonds (the stock market declined during the Liberty Loan flotation); (b) heavy increases of government war paper in banks' assets; (c) the decline in Liberty Loan quotations since the signing of the armistice due to liquidation by holders who borrowed to buy them. The European Government bonds rose in this period.

4. *Comparative savings.*—Great Britain before the war saved somewhat over a billion a year, Germany and France a little under a billion. A. A. Noyes estimated that Europe saved about $2,500,000,000 a year before the war. Can we save five times as much as all of Europe?

Simon Litman.—If I understand Professor Friday correctly, he considers that the American people have been wrongfully accused of being less saving than the thrifty inhabitants of European countries because the amount of capital formed each year in the United States has been greater than in any European country. Without entering upon a discussion of the validity of the accusation itself, I wish to suggest that Professor Friday's establishment of the fact that our yearly accumulation of capital has been greater than anywhere else, does not meet the arguments of the accusers. The knowledge that the yearly supply of new capital in the United States is much greater than the supply of any other nation does not assist one in answering the more pertinent questions, i.e., what proportion of our national dividend do we capitalize as compared with what is capitalized in France or in Germany; and how far do the various classes of our population, grouped by incomes, contribute through their individual savings towards the formation of new capital, as compared with similar groups in Europe. Only such a comparison can throw some definite light on the situation.